

Date: October 18, 2011

To: Senate Energy and Technology Committee

From: James A. Ault, President
Michigan Electric and Gas Association

Subject: Review of 2008 PA 295, Part 2 – Subpart B (Energy Optimization)

1. Introduction and Summary

The Michigan Electric and Gas Association (MEGA) is a trade association of investor-owned electric and natural gas utilities serving in Michigan. The MEGA member utilities are: Aurora Gas Company; Alpena Power Company; Citizens Gas Fuel Company; Indiana Michigan Power Company; Michigan Gas Utilities; Northern States Power Company, a Wisconsin corporation (Xcel Energy); Upper Peninsula Power Company; We Energies and Wisconsin Public Service Corporation. All of the MEGA electric utilities are regulated by the Michigan Public Service Commission (MPSC) and are subject to the energy optimization (EO) standards and requirements of the Clean, Renewable and Efficient Energy Act, 2008 PA 295 (Act 295). MEGA gas utilities include those providing combination electric and gas service (Xcel, Wisconsin Public Service) and gas only (Aurora, Citizens and MGU). Of these, MGU, WPS and Xcel are subject to MPSC rate regulation and the EO requirements. Aurora and Citizens are “home rule” providers regulated at the local municipality level.

All of the MEGA providers subject to the EO requirements have elected the option, available under Section 91 of Act 295, to pay an alternative compliance payment specified by the act to the independent EO administrator selected by the MPSC to conduct programs for those providers as a group. The state administrator is the Michigan Community Action Agency Association (MCAAA), which operates EO programs for participants under the trade name “Efficiency United”. In addition to the MEGA members, certain municipalities and another regulated gas utility (SEMCO) also participate in Efficiency United. The role of the providers in this situation is to collect revenues pursuant to Section 91(1) and turn the funds over to the administrator. Reconciliations are conducted by the MPSC as well as plan approval updates. All of the MEGA members with EO programs have elected to continue with the administrator for the two year period 2012-2013. For those years, the funding amount is 2% of annual utility sales revenue for the second year prior to the year of collection.

MEGA does not propose specific changes in the EO provisions at this time due to the early status of the programs and the need to conduct an analysis of program cost effectiveness over a multiple year period. The experience with EO programs to date indicates several issues which will require consideration, discussed in Section 3 below.

MEGA members appreciate the option provided in Act 295 to use a common administrator, which provides efficiencies of scale and avoids duplication of utility administrative efforts. Smaller utilities lacked the staffing to develop in house programs in a timely and cost effective manner.

2. MEGA Company Data

The attached table shows information regarding the MEGA providers' EO funding. It is our understanding that Efficiency United will provide information to the Committee regarding the nature of specific EO programs and program evaluations. Amounts listed for the upcoming year program contributions are taken from MPSC orders approving settlement agreements or from the application for approval of the amounts and rate surcharges pending before the MPSC. 2012 is the first year the contribution level hits the full 2% of revenues after ramping up from 2009 through 2011.

3. Issues for Future Consideration

The initial EO savings targets in Act 295 are reasonable and time should be allowed to determine the effectiveness of various program offerings through the evaluations process and updates to the deemed savings data base (MEMD). Statutory amendment in the future might be necessary in the following areas:

Program evaluations may require adjustment of goals and contributions.

Evaluations are too expensive for the smallest utilities of any type (municipal, co-op, investor-owned)

Statutory targets may be harder to reach in future years due to ongoing requirement for a new incremental 0.75% (gas) or 1.0% (electric) savings each year. There may be diminishing returns as the easiest paths to savings are used up. The gas business has limited savings potential due to the limited uses of gas (primarily home heating).

More flexibility to reduce the required alternative compliance payment (2% of revenues) to fit programs may be needed if more funds are collected than necessary to run cost-effective EO programs.

Under the 2007 federal Energy Independence and Security Act, efficiency standards cannot be met by incandescent lighting and this will cause CFL lighting to be the primary option. Once CFLs are the basic lighting source, there will be no more savings available via promotions of a shift from incandescent to CFL lighting and this opportunity for EO savings will disappear.

Customer acceptance of certain programs could be an issue due to the economy and reluctance of customers to assume new debt for major efficiency upgrades, even with promotion and rebates.

At this time, however, the state administrator program seems to be functioning well and the administrator has made efforts to work with the utilities and obtain/provide feedback.

One behalf of MEGA and its members, thank you for this opportunity to provide information and take questions.

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MEGA – Summary of Company Data on Energy Optimization (EO) Implementation

<u>Company</u>	<u>Service Area</u>	<u>MI</u> Customers E=electric G=gas	<u>Multistate?</u>	<u>2012 Alternate</u> Compliance Payment (2% of 2010 revenue)	<u>Surcharges</u>	<u>2012-13 EO Plan</u> Status
Alpena Power Company	Alpena and nearby municipalities in NW lower peninsula	16,300 E	No	\$510,504	Residential monthly \$0.00272 per kWh (\$1.36 per month for using 500 kWh); nonresidential customers pay per meter per month (PMPM) at rates of \$2.76, \$39.86 or \$316.82 as size increases.	Approved in MPSC Case No. U-16669
Indiana Michigan Power Co.	Part of SW lower peninsula	128,000 E	Yes – I&M serves part of N Indiana; part of a larger AEP multistate system	\$4,420,319	Residential monthly \$0.00156 per kWh (\$0.78 per month for using 500 kWh); charges for nonresidential customers from \$.04 to \$330.24 PMPM.	Pending in U-16673
Michigan Gas Utilities	Parts of Southern lower peninsula		No – but part of Integrity's Energy Group of affiliated companies	\$2,427,332	Residential monthly \$0.2104 per Mcf (\$0.2104 per month for using 1 Mcf); nonresidential PMPM charges at \$4.38, \$129.13 and \$185.07.	Approved in U-16731
Upper Peninsula Power Co.	Part of 10 counties in central Upper Peninsula	51,937 E	No – but part of Integrity's Energy Group of affiliated utilities	\$1,967,085	Residential monthly \$0.0036 per kWh (\$1.80 per month for using 500 kWh); nonresidential PMPM charges \$3.90, \$45.28 and \$697.25.	Approved in U-16675
We Energies (trade name for Wisconsin Electric Power and Wisconsin Gas)	Part of 10 counties in W-Central Upper Peninsula	28,386	Yes – WE also serves a large area in Wisconsin (over 2.1 million total customers) and is part of Wisconsin Energy Corp.	\$931,154	Residential monthly \$0.00273 per kWh (\$1.36 per month for using 500 kWh); nonresidential PMPM charges increase from \$207.85	Approved in U-16677
Wisconsin Public Service Corp.	Area near Menominee in Central Upper Peninsula	8,988 E 5,326 G	Yes – WPS also serves a large area in N Wisconsin and is part of Integrity's Energy Group	\$381,401 electric 91,685 gas	E Residential monthly \$0.0021 per kWh (\$1.05 per month for using 500 kWh); nonresidential electric PMPM steps at \$3.23, \$28.34 and \$56.68. G Residential monthly \$0.0137/therm or 13.7 cents per month; gas PMPM levels for nonresidential are \$2.19, \$4.38 and \$30.24	Settlement pending in U-16676
Xcel Energy (trade name for Northern States Power – WI and others)	Far W Upper Peninsula	9,700 E 5,289 G	Yes – NSP-W also serves N Wisconsin; part of affiliated group of Xcel Energy companies in 8 Western and Midwestern states	\$211,918 electric 116,264 gas	E Residential monthly \$0.0017 per kWh (\$0.85 per month for using 500 kWh); nonresidential electric PMPM at \$18.76 or \$130.31 electric G Residential \$.01816/therm or 18.1 cents per month	Approved in U-16674